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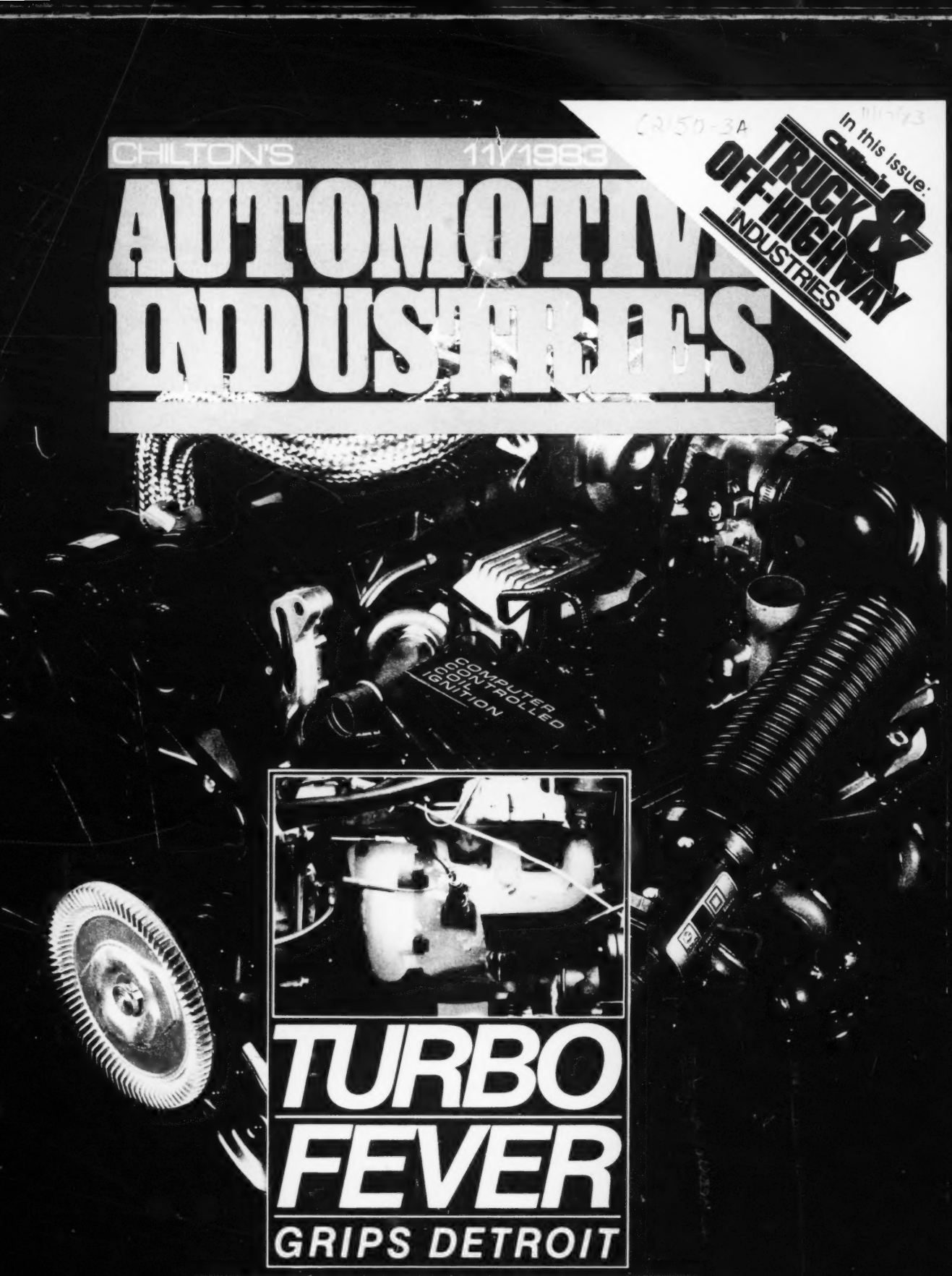

TURBO FEVER GRIPS DETROIT

Big Rigs Duel In Real-World Tests

Chrysler Guns For Bigger Market Share

Including **Truck & Off-Highway Industries**

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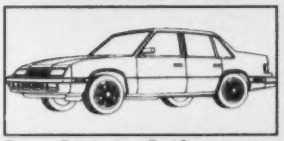

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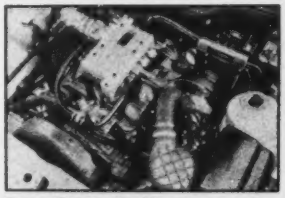

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Buick's high-tech SFI V6 Turbo glistens with chrome while Chrysler's 2.2 Turbo glows in testing.

NEXT MONTH

Our "Strategy '84" issue includes interviews with top industry execs, forecasts and more.

QUOTABLE

Ford Chairman Philip Caldwell, describing new investments in products, plants and machinery by the auto industry: "The cost of this industrial revolution is $80 billion which happens to be more than it took to land a man on the moon. I like to compare it to the total cost in today's dollars of the Marshall Plan, which put Western Europe back on its feet after World War II...although, unlike the Marshall Plan, virtually every dollar for the automobile revolution is coming from private capital."

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The Cycle Turns Rag

Citicorp economists are cautioning that the recovery will continue to be decidedly uneven, but car sales look good, according to economist John Maher. Maher sees sales rising next year to an average 10.5 million units, with an 8.0/2.5 million domestic/import split, and says the numbers are attainable in spite of the expected fall-off late this year and early next year. Auto sales should exceed an 11 million unit annual rate for a few quarters, according to Citicorp projections, but escalating inflation should lead the Fed to reduce money growth, resulting in a recession in late 1985/early 1986. Maher says the cyclical downturn will be a relatively mild one, but the subsequent recovery will be mild too, since the Federal Reserve will act to cool it down so that inflation doesn't become a problem.

New Car Sales (millions, seasonally adjusted)

	1983	1984	1985	1986	1987	1988
total sales	9.3	10.5	11.0	9.5	10.5	11.0
domestic	6.9	7.9	8.3	7.0	7.8	8.3
import	2.4	2.5	2.7	2.5	2.7	2.7
import share (%)	25.5	24.1	24.1	26.2	25.3	24.5

Source: Citibank Economics Dept.

Fastening Up

Sales of industrial fasteners should gain considerable strength through 1987, says Frost & Sullivan. Volume in 1983 is projected to jump to $4.4 billion in constant dollars from last year's $3.9 billion. For the next 4 years, says the report, growth will average 5% per year, yielding a $5.2 billion market in 1987. Sales in the adhesives market will approach $900 million by 1987.

Cybernetic Premiums

What happens when a member of your robot tribe breaks an arm or fries a few transistors? If you've taken out an insurance policy on your steel collar invalid, you collect, that's what. The Kemper Group has dropped the exclusion for process control computers from its boiler and machinery policy so that the complete robot can be covered for equipment breakdown and expenses incurred from interruption of business caused by the loss.

Ford Taps Europe

Ford US may sell more than just European Sierras next year. The re-designed European Granada is also being eyed for US consumption. Ford has substantiated the rumors that its 2.3-L turbo will replace the European 2.8-L V6 in Sierras arriving in Lincoln-Mercury dealer showrooms next year.

Allied Advance

Allied Corp.'s Automotive Sector has combined several divisions to create what the company calls one of the largest independent suppliers of electrical and electronic products to the worldwide automotive industry. The new organization combines Bendix Engine Controls Div., Newport News, VA, Canadian Fram Inc., Chatham, Ont. and twelve Prestolite operations in North America and one in the UK. Renix Electronique, a joint venture between Bendix and Renault, will be an affiliated member of the combine. Additionally, Prestolite's spark plug business has been combined with the Autolite spark plug unit, also a member of Allied Automotive.

Mergers Down

Believe it or not, merger and acquisition activity in the auto and truck industry decreased 14% in 1982, according to W.T. Grimm & Co., a merger and acquisition authority. The firm reports auto and truck industry mergers fell from seven in 1981 to six in 1982, placing the industry 49th on W.T. Grimm's 50-industry list.

Market Minutiae

Volvo's new US Bus Division recently received its **first order** for 50 transit buses to be delivered next summer to the Southeastern PA Transportation Authority. ■ Mack Trucks Inc. is **increasing production** at its Allentown, PA plant to 79 trucks per day. The recent increase, coupled with increases last July, raises production rates 40% since June 30. ■ Marik Bosia has been **named president** and CEO of Fiat Motors of North America. The job shouldn't be too demanding, since Fiat pulled out of the North American market earlier this year. A spokesman says they're still selling Ferraris here,and must provide Fiat parts and service for 7 years. ■ Chevy's **claiming number one** status in 1983 model year trucks. The division sold 917,240 trucks through the end of September, a 20.9% increase over last year.

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STRATEGY '84

Chrysler's Iacocca: "I don't think you can plan for the up-cycle. You're better off planning for the down-cycle to keep from going bankrupt."

American Motors' Tippett: "Longer range we obviously have to get ourselves competitive with the Japanese. We can't ask the American people to put up with protectionism forever."

General Motors' Smith: "We could build the best cars in the world, but a lot of our success will still depend on what happens in Washington."

Ford's Caldwell: "I hope we can get the message across to the American people that you do not have to buy a foreign product to get high quality or fuel economy or good value."

Volkswagen's Phillips: "We can afford to go a little bit more on the attack than the defensive situation we had to run a year ago."

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GM chairman Roger Smith says combined car and truck sales could exceed 13 million in 1984 if our government gets its house in order.

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America's antiquated tax system may well encourage imports and discourage exports. Most US automakers agree that something must be done to correct a serious imbalance.

32 Ford: Caldwell Confident Yet Concerned
Although Ford's chairman is confident that about a million more cars will be sold in the US in 1984, he sees a host of problems looming.

39 Chrysler: Iacocca Optimistic, With Reservations
Iacocca sees an excellent market for his company in the next 12 to 18 months, but he also plans to take on GM, the Reagan administration and the Japanese!

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Now that domestic automakers have improved the quality of their cars, the trick is how to sell that fact.

51 AMC: Tippett Striving For Profitability
AMC's sales are up, but expensive product reorganizations have cost the company plenty. Chairman Paul Tippett says profitability is just around the corner.

57 Remote ID Aids Automation
"Here I am," says car No. 799 to the welding robot. "Spot weld me the way I tell you to!" A Philips-developed remote identification system has tremendous potential.

59 VWoA: Phillips 'On The Attack' In '84
With Volkswagen's US business slowly on the mend, chairman Noel Phillips says the company is ready to attack new markets.

62 Industry Analysts: Welcome To Easier Times
Major industry analysts and research associations say the auto industry is picking up, inching toward (and maybe past) 10 million new car sales.

65 Steel Studies Its Comeback
Robert McBride, president of National Steel Corp., talks about his company's return to profitability, and the problems and challenges that lay ahead.

68 'Affordable' Quattro Debuts
The Quattro Turbo's all-wheel-drivetrain and a high output naturally aspirated five cylinder transform the Audi 4000 sedan into a real all-weather Saab-beater.

GM's Smith—P. 22

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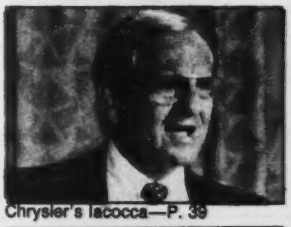
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The industry's top executives tell us their hopes and fears for the months ahead as Detroit slowly regains profitability.

NEXT MONTH

A detailed look at GM's Project Saturn, plus a critical look at industry automation highlight our January issue.

QUOTABLE

"The biggest drawback to plastic is its name. Then again, our customers do not react negatively to plastic when it brings advantages. The new S-class has the highest proportion of plastic among large-scale production cars and is still fully accepted by our customers."—Werner Breitschwerdt, head of Daimler-Benz R&D, from an interview in the German science periodical *Bild der Wissenschaft*.

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V.A.T. Debacle

DOES AMERICA SUBSIDIZE ITS IMPORTS?

America's antiquated tax system may well encourage imports and discourage exports. Politically, any new tax is unwelcome. But most US automakers agree that something must be done to correct a serious imbalance in America.

by John McElroy

A strong dollar, high wage rates and low productivity are the scourge of the US auto industry. But even if these problems are overcome, the basic tax structure placed on the industry could prevent it from ever being totally competitive.

Moreover, this tax structure results in a potential tax loss to the US Treasury exceeding $2000 per imported car, according to my research.

Tax revenues represent over 30% of the Gross National Product (GNP). In other words, a typical product produced in the US carries over 30¢ of tax-related costs for every dollar of price when it is sold.

This includes state, federal and local taxes, as well as a host of other taxes such as the income and social security taxes paid by workers who make the product.

However, according to studies conducted by trade economists in the late 1970s, different sectors of the US economy are taxed at different rates. The tax rate on industrial goods is actually closer to 40-45%.

Therefore, the average American-built car, which now sells for over $9000, contributes $3600 in taxes to the economy.

An imported car sold in the US contributes far fewer taxes since it is built overseas. To determine what it *does* contribute to the US economy it is necessary to determine how much value is added to the import in the US.

This can be done by subtracting the port of entry (POE) price paid by the importer from the actual selling price, since the difference represents value added in America. By taking 30% of the American value added, the import car's contribution to the US economy can be determined. (The 30% tax rate can be used here because imports are not subject to the higher tax rate imposed on industrial goods.)

The average imported car in the US sells for more than $9000, and its POE value is about $6500, according to the US Dept. of Commerce. This means the American value added for the average import is $2500. Therefore, it's contribution in taxes to the US economy is $750 ($2500 times 30%).

US Treasury Loses $2850 Per Import

Origin Of Auto	America	Overseas
List Price In America	$9000	$9000
American Value	$9000	$2500
Applicable Tax Rate	40%	30%
Amount Of Taxes Paid	$3600	$ 750
Difference In Amount Paid	$2850	
'82 Import Sales	2.2 million	
Total Tax Loss From Imports	$6.3 billion	

The difference in tax contributions of a US-built car versus an import is $2850 ($3600 minus $750).

About 2.2 million imports were sold in the US in 1982, implying there was a possible tax revenue loss of $6.3 billion (2.2 million cars times $2850). Of course this assumes that consumers who bought imported cars would have bought American cars instead. This figure, in and of itself, is intriguing, but is only part of the story.

Most international trade economists would say that this tax loss from imported cars is balanced by taxes generated from US exports to other countries.

But this reasoning doesn't hold true with Japan, for instance, since the Japanese commodities we import and the US commodities they import are very different. The US suffers a $20 billion trade deficit with Japan, of which about $13 billion is automotive-related. Sixty percent of US exports to Japan are agricultural commodities and raw goods.

The same trade economists' studies indicate that the tax rate on US agricultural goods is around 20-25%, as opposed to the 40-45% tax on industrial goods. So if the US imports a car worth $9000 instead of selling an American car worth $9000, it ends up with a tax loss of $2850. (Chrysler puts the figure at $1750). And if it tries to make this up by exporting $9000 worth of agricultural goods, there is still a net loss because of the different tax rates.

At the very least, it can be said that the US is hampering its exports of industrial goods by burdening them with a disproportionately higher amount of taxes.

When the total trade picture is taken into consideration, it is obviously fair that the country in which a car is produced should benefit the most from the taxes which that production generates.

However, the major industrial nations in the world, except the US, allow a certain portion of indirect taxes to be rebated from their cars when they are exported. To be more specific, a country may exempt exports from commodity or value added taxes (VAT) on the grounds that such taxes should be levied where goods are sold (location of consumption). At the same time, those countries can impose commodity and VAT taxes on imports on the same principle—that goods should be taxed where they are sold. This is completely legal under the General Agreement on Tariffs and Trade (GATT) as signed by most industrialized countries (including the US and Japan) in 1947.

As an example, in Japan, on average, a 20% commodity tax is applied not only to cars built and sold in Japan, but also on automobiles that Japan imports. That is to say, if a car in Japan with a sticker price of $9000 is slated for export, the commodity tax rebate reduces its price by $1800 to $7200.

Furthermore, a $9000 US-built car sold in Japan is hit with a 20% commodity tax, raising it price to $10,800. This makes the US model un-competitive both at home and abroad.

As we go to press, a bill introduced in

(Continued)

V.A.T. Debacle

Typical VATs On Cars In Europe

Country	Value Added Tax On Cars
Ireland	35.0%
Sweden	23.5%
Denmark	22.0%
Belgium	19.0%
France	18.6%
Italy	18.0%
Netherlands	18.0%
Austria	18.0%
England	15.0%
W. Germany	14.0%
Luxembourg	10.0%

These taxes do not apply to exported cars. In many countries cars are subject to additional sales and other taxes.

the US Senate by Sen. Carl Levin (D-MI) would counter the commodity tax on imported cars. The bill only applies to those nations which have over 10% of the US car market, i.e. Japan. A US tax would be imposed on such imported cars equal to the cost increases borne by domestic autos when entering foreign markets. In effect, it is a reciprocity bill.

As noted before, it is not unfair if an imported car doesn't generate as many taxes in the US as a domestic auto, because it was built in another country. But commodity and VAT taxes are defacto subsidies. They stimulate sales overseas, which in turn increase profits and jobs at home, thereby erasing the lost revenue from rebated taxes. Unless it can figure out a way of equalizing commodity or VAT taxes, the US will actually subsidize the sale of every car it imports. ■

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How Foreign VATs Hurt Us

Origin Of Auto	America	Japan
Commodity Tax In Home Country	—	20%
List Price In Home Country	$9000	$9000
Tax Deleted At Export	—	$1800
Tax Added At Import	$1800	—
List Price In Foreign Market	$10,800	$7200
Difference	$3600	

Most Industry Execs And Economists Favor V.A.T.

Lower-priced Japanese products are seriously attacking more than 50 different industries in this country, including the automobile, machine tool, farm implement, computer and electronic markets.

Naturally, this has produced many problems for us, including a foreign trade deficit that may reach $70 billion this year and billions of dollars in lost tax revenues.

Many top executives have concluded that the Japanese commodity tax is one of the biggest contributors to their success in the American auto market.

Trade officials, especially those in Japan, often deny that this tax is a subsidy to encourage exports. However, a V.A.T. acts exactly like an export subsidy becauses it's cancelled on any product that's exported.

Robert E. Lighthizer, the deputy US trade representative, recently told *AI* that the Reagan administration is opposed to value added taxes, even though all our "trading partners" use them. However, he also revealed that the administration probably hasn't even studied this major trade device.

"The question really is, do you want to have a national sales tax in this country," Lighthizer says. "My sense is that most Americans do not. There are state sales taxes already. The federal government shouldn't pre-empt them and have a federal tax like that.

"I should say I'm really speaking on my own behalf, because the administration hasn't really studied it. At least I'm not aware that they've studied it."

A recent *Business Week* article claims that Martin S. Feldstein, chairman of the President's Council of Economic Advisors, prepared a speech early this year in which he promoted a "consumption tax" or value added tax. Such a tax, he argued, would discourage spending while encouraging savings, and this would probably lead to investments that provide more jobs.

The speech was never delivered. The White House changed signals at the last minute. *Business Week* says this incident illustrates both the intellectual attractiveness and the political difficulties of implementing a value added tax. V.A.T.s have attracted economists since they were first espoused in 1651.

It's important to understand that this tax would not be applied to food, housing and other essentials. In addition, income taxes and other taxes would be dramatically reduced.

The serious problem which Japanese value added taxes create for the US auto industry has been hammered at repeatedly by Chrysler chairman Lee Iacocca, Ford chairman Philip Caldwell and AMC chairman Paul Tippett. Only GM is uncritical of this Japanese tax. That is undoubtedly because GM may become the country's largest importer of Japanese cars. The company will import billions of dollars worth of Japanese Isuzus, Suzukis and Toyota parts in the next few years.

Robert Lutz, Ford's VP of International Operations, is adamant about V.A.T.s. "There's a total unfairness in the fact that Japan and everybody else operates on a value added tax system. Since the US doesn't have such a tax, the Japanese vehicles come in without a tax load, whereas our cars have taxes scattered all through them, which we pay on every car. The US has to address that problem. Otherwise, they're [the Japanese] going to clean out our industry."

Others who have recently spoken out in favor of a V.A.T. are John E. Chapoton, assistant Treasury Secretary for tax policy, and Alan Greenspan, former chairman of the Council of Economic Advisors.

A few years ago the chairman of the US House Committee on Taxation also advocated this kind of tax. However, this seriously disturbed his constituents, and he was badly defeated in the next election. ■

—Joseph M. Callahan

QUALITY: THE NEW YARDSTICK

Now that domestic automakers have improved the quality of their cars, the trick is how to sell that fact. Differing public perceptions of quality, however, stand in the way of Detroit's new tool for one-upmanship.

GM chairman Roger Smith examines a set of statistical control charts at Cadillac's Livonia Engine Plant while a supervisor explains their effect on quality.

by John McElroy

The domestic car companies have found a new yardstick with which to compare their cars to the competition's.

Traditionally, marketing and advertising programs have centered on comparative pricing or rebates and financing. Today it's quality. And when it comes to proving supremacy, the claims are quite pointed; even nasty.

Recently, Ford unleashed a barrage of corporate advertisements which claimed its cars have 10% better quality than GM's and a whopping 36% better than Chrysler's. As you might expect, GM and Chrysler don't exactly agree. (As we go to press, the FTC has ordered Ford to document the quality claims made in its commercials and ads.)

The word in Detroit is that Chrysler threatened to pull its advertising from the networks than ran Ford's ads. When that didn't work, Chrysler hit back with its own TV and print ads questioning the validity of Ford's research. These ads center on safety recalls during the last two years, and suggest that Chrysler's quality is four times better than Ford's.

General Motors hasn't named names, but has responded with print ads which claim that the ultimate test of quality is in how many people actually buy the product. And since GM sells more cars, the implication is that GM has the best quality.

Obviously there are different ways of measuring quality. But what exactly is quality? To different people it means different things.

"Overall, quality is a constantly changing perception by the consumer," says J. D. Power of J. D. Power & Associates. "You can't measure quality in a laboratory. It's the total experience of the consumer that counts."

Power & Associates publishes a Consumer Satisfaction Index once a year that is based on interviews with owners who have had their cars a year—a critical time since most warranties have just run out.

The most important finding of the 1983 survey, according to Power, is that the overall index is up 9.5% from the previous

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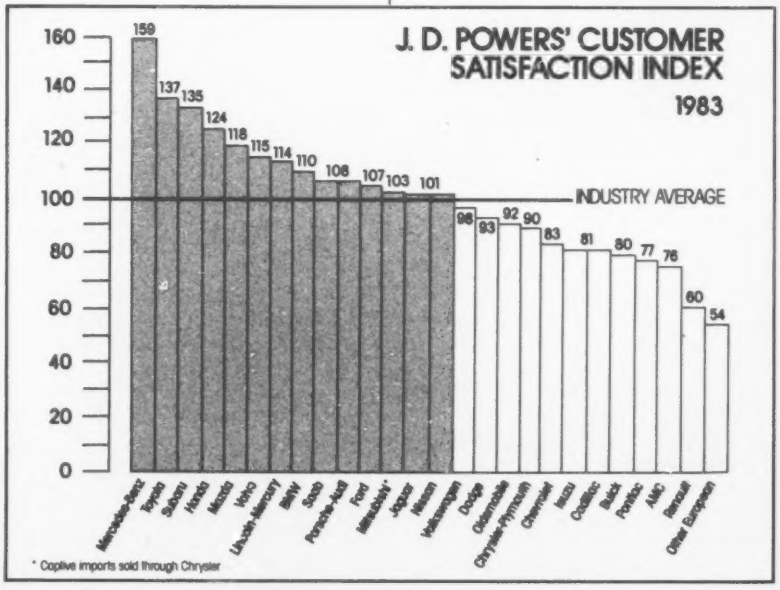

J.D. Powers' Customer Satisfaction Index shows that Lincoln-Mercury and Ford cars have dramatically improved their quality.